

## **Audit Division**

The MIT Audit Division delivers audit services through a risk-based program of audit coverage, including process audits, targeted reviews, and advisory services. These efforts, in coordination with the Institute's external auditors, PricewaterhouseCoopers, provide assurance to management and to the Audit Committee of the MIT Corporation that good business practices are adhered to, adequate internal controls are maintained, and assets are properly safeguarded.

The Audit Division's scope of services is equal to the full extent of MIT's auditable activities. Audit resources are prioritized and allocated using a model of risk evaluation for defined entities at the Institute.

The Audit Division is fully attentive to the support and service of its primary customer, the Audit Committee of the Corporation. In accordance with its charter, the Audit Committee meets three times a year. This schedule lends momentum to the Audit Division's goals for monitoring internal controls and supporting the Institute's risk management processes.

Fully staffed, the Audit Division employs 17 professional staff (15.4 full-time equivalents), including the Institute auditor. Core resources are organized into two distinct functions, Audit Operations and the Research Administration Compliance Program (RACP), each managed by an associate director. Resources are allocated and shifted between these functions to meet current needs. One staff member left the Audit Division in the fall; audit management did not fill the open position in order to achieve the mandated budget reduction for FY2010.

Audit Operations carries out a priority-based program of audits and reviews to evaluate the effectiveness of management's systems of controls over financial, operational, and compliance risks within the Institute's activities, including information technology controls. This group is directed by the associate director for business and technology audit services.

RACP provides ongoing research administration compliance monitoring and reports to the associate audit director for operational and compliance risk management. RACP's efforts involve two key elements: department-level site visits, designed to assess internal controls within the departments, labs, and centers (DLCs) and provide research compliance support to DLC staff; and ongoing compliance monitoring, which includes DLC-level monitoring and Institute-wide reviews. Through delivery of these advisory services, RACP represents an outreach effort to the Institute's numerous and varied DLCs. The relationships developed extend from the schools' assistant deans out through the DLC administrative and support staff.

The Audit Division also houses a specialized function called Professional Standards and Strategy (0.8 full-time equivalents), led by an experienced member of the division with the title of assistant audit director. Working with the Institute auditor and the audit

management team, this function guides the division in setting policy and direction to help us achieve our long-term goal of assuring that MIT's audit function is world class.

In December 2007, the Institute auditor, jointly with the vice president for information services and technology, acquired resources for and began to provide administrative direction to a program designed to address risks associated with personally identifiable information. The program work, described below under "Program on Personally Identifiable Information," is led by an experienced individual, formerly a director in Information Services and Technology (IS&T), with broad knowledge of Institute processes and culture; the program director's work is enhanced by close involvement of senior staff from both the Audit Division and IS&T.

## **Accomplishments**

### **Audit Operations**

The primary objective of Audit Operations is to perform reviews and evaluations of the Institute's business processes and provide management with assurance that controls are functioning as intended. Accordingly, we strive to perform this work in accordance with *the International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. These standards require that we maintain independence when conducting our reviews throughout the Institute. This is achieved through an independent reporting line to the Audit Committee of the MIT Corporation, as well as by not assuming operational roles or undertaking responsibility for designing or implementing controls.

Audit Operations substantially completed its fiscal 2009 audit plan as of June 30, 2009. The 2009 audit plan comprised 40 internal audit/advisory engagements of various Institute business processes. Throughout the plan year, we adjust our portfolio of engagements to address the current environment and shifting risk priorities of the Institute. Audit Operations engagements (excluding our work at Lincoln Laboratory discussed below) completed within the 2009 audit plan included the following:

- *Process reviews*: reviews of the electronic data interchange for partner vendors, MIT Press, MIT Medical pharmacy operations, donor pledges and receivables, and other relevant Institute business processes.
- *Targeted reviews*: these included the Institute's procurement card function, a review of internal food expenditures, and various investigations into potential or actual malfeasance.
- *Advisory reviews*: our focus in 2009 included cost reviews for the various capital construction projects, assistance within the administrative redesign of the Microsystems Technology Laboratories (MTL), and various federal research and development topics that were discussed with Institute management.

The Audit Division worked purposefully and diligently throughout the year to establish an internal audit presence at Lincoln Laboratory with the support of Lincoln's chief operating officer and the executive vice president. A review of the Information Technology Infrastructure Library was completed, as was follow-up work for the prior raw stock physical and book inventory review. Effective midyear, an existing staff member was

dedicated to the Lincoln audit effort (0.6 full-time equivalents) under the supervision of the assistant audit director. A presentation was delivered to acquaint Lincoln department heads and business managers with internal audit's objectives and processes.

As noted above, Audit Operations participated in a review and redesign of the administrative processes within MTL, one of the Institute's research laboratories. This review was initiated by the laboratory's management, who invited the participation of the associate director for business and technology audit services. While the review was, in part, a reaction to an investigation conducted by the Audit Division within the laboratory, it serves as a model of cooperation between academic and central administration in the overall improvement of administrative processes at the Institute.

### **Research Administration Compliance Program**

The RACP site visit program completed 20 visits during FY2009, which represents coverage of 22 percent of MIT's on-campus federal expenditures. Since the inception of this program in 2005, a total of 62 visits have been made. The FY2009 site visits represent the second cycle of the RACP site visit program. This program continues to provide on-site assistance to the Institute's DLCs relative to current compliance issues. Observations made and data collected through this program are provided to assistant deans and others to provide useful information on common trends, issues, and practices within the DLCs and to influence pathways to improved compliance in areas where desired targets are not being met. Overall, the program has accomplished its primary goals of achieving brisk coverage of DLC compliance and providing support for DLC control structures.

In addition to the site visits, RACP performed Institute-wide reviews in a number of research administration high-risk compliance areas.

### **Professional Development**

#### ***Training***

We emphasize professional development by all of our staff. Members of the audit staff find opportunities for training in their discipline and affiliate with industry peers through conferences, seminars, and group meetings. Peer-group affiliation was an important theme in 2009. The Institute auditor is a member of the "Little 10+" association of Ivy League and other peer institutions, which meets semiannually. The sixth annual meeting of the manager-level group representing the same Little 10+ institutions took place in October 2008, paving the way for future intercollegiate collaboration among audit groups. In addition, information technology (IT) staff representing the same group of institutions convened this year. These meetings each provided a forum for exchanging ideas and determining approaches to common problem areas.

Audit management hosted one and a half days of training for Audit Division staff on techniques for identifying and evaluating systems-based controls (all staff) and advanced techniques for gaining an understanding of an entity or process (manager level and up). Four staff members also attended the MIS Training Institute's first-ever AuditWorld conference, a local event consisting solely of practitioner case studies to illustrate and foster discussion about proven and best practices.

In January, the Audit Division hosted an all-staff retreat to develop and focus on strategic objectives for continuous improvement and streamlining of internal business processes. The chairman of the MIT Audit Committee, A. Neil Pappalardo, was a guest speaker for this occasion.

Michael Bowers continues another two-year term as Audit Committee chair of the Association of College and University Auditors.

### ***Presentations at Industry Conferences and Other Venues***

Members of the MIT Audit Division are frequent contributors to industry conferences, as follows.

- In September, Michael Bowers participated in a panel presentation at the annual conference of the Association of College and University Auditors titled “Internal Audit: Extreme Makeovers,” in which he, along with counterparts from Duke University and the University of Connecticut, compared methodologies for achieving transformative change in audit practices, structures, and services.
- Also in September, Deborah Fisher participated in a keynote presentation at the MIS Training Institute’s Audit World 2008 conference on “Internal Audit Delivering Solutions.” The presentation emphasized the advisory role of internal audit services.
- In June, Allison Dolan (program director for the initiative to protect personally identifiable information), Jaren Wilcoxson (counsel), and Deborah Fisher presented at the annual conference of the National Association of College and University Business Officers on risks and mitigation strategies for handling sensitive data.

### **Related Initiatives and Administrative Matters**

#### **Program on Personally Identifiable Information**

This program, whose goal is to examine and promote mitigation of risk associated with obtaining and maintaining Social Security numbers of staff, students, alumni, and others, was launched in December 2007 under the joint guidance of the vice president for information services and technology and the Institute auditor, the initiative’s cosponsors. Program methodology has included outreach, process analysis, change management, benchmarking, and development of guidelines and best practices.

This program has adopted a risk-mitigation framework that seeks to minimize collection of Social Security numbers, minimize “touch points” (individuals with access), protect Social Security numbers in the custody of MIT’s systems and operations, and securely destroy records containing Social Security numbers if not needed. Work is proceeding within the elements of this framework to reduce the Institute’s exposure to malicious or inadvertent loss or compromise of private, personally identifiable information. Measurable progress has occurred, particularly in the areas of reducing access to and minimizing collection of Social Security numbers. Outreach efforts are also noteworthy: a consciousness-raising postcard was sent to the entire campus population; hundreds of

people have attended departmental meetings or community forums, including sessions held during the Institute's annual Independent Activities Period (IAP) in January; and an article in the MIT Faculty Newsletter as well as informational emails compose the broad communication initiative. Dozens of risk-mitigating activities have resulted from the program, ranging from simple improvements in local document shredding solutions to system redesign to eliminate requests for unneeded personal information.

In the fall of 2008, when the Federal Trade Commission issued its "red flag rules" to prevent identity theft and Massachusetts issued its regulations for the protection of personal information, MIT was in a uniquely favorable position to respond to these issues. Data had been gathered on where and how Social Security numbers (and other personally identifiable information) were being used, and a cross-functional group of individuals with background in the areas of data privacy and security was in place. As a result, MIT was able to implement the required identity theft prevention program by the original effective date of May 1, 2009, and is well down the path to having the Massachusetts required Written Information Security Program (WISP) in place by the January 1, 2010, effective date. MIT is seen as a leader in this area; members of the working group, including the program director, have been invited to present at several higher education and industry conferences, with very positive feedback in terms of the utility of the information shared.

### **Code of Business Conduct and Institutional Hotline**

Recent amendments to the US General Services Administration's Federal Acquisition Regulation (FAR) include a requirement for a code of business conduct and ethics to be provided to staff involved in research contracts in excess of \$5 million. A working group comprising representatives of the offices of the General Counsel, Vice President for Finance, and Sponsored Programs; the Department of Human Resources; and the Audit Division is engaged in addressing the needs of this requirement. A working draft "code" (a compilation of existing MIT policies on ethical behavior) is under consideration. Additionally, prompted by the same FAR amendment, the Institute auditor, in collaboration with the above offices and, notably, the Institute's Ombuds Office, launched an initiative to implement an institutional hotline and related awareness program.

### **Current Goals and Objectives**

As the Institute faces some unique challenges in the upcoming year, the Audit Division has set goals to maintain its relevancy during this interesting period:

- Maintain relevant, effective audit coverage, responsive to changes in the environment and attendant shifts in risks and controls. Strive for deeper knowledge of business activities and stronger, trusting relationships with management that lead to enhanced control structures
- Prioritize audit services that promote opportunities for increased cost savings, recoveries, or enhanced revenues
- Continue initiatives to improve the quality of audit services (effectiveness, efficiency, and timeliness) and implement and monitor measurements of quality, with world-class status in mind

- Invest time, if not monetary resources, in the professional development of our staff and advance the division's diversity

These goals are owned principally by the management of the division and are articulated to staff members at division staff meetings, at periodic retreats, and in the conduct of daily work. The goals are also discussed with senior administration and the Audit Committee.

**Deborah L. Fisher**  
**Institute Auditor**

*More information about the MIT Audit Division can be found at <http://web.mit.edu/audit/www/>.*